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E.O. 12958: N/A
TAGS: ETRD KTEX EINV PREL ECON RP
SUBJECT: POST-QUOTA ADAPTION OF GARMENT AND TEXTILE
INDUSTRIES

REF: STATE 146213

¶1. Summary: The Philippine garment and textile industry has thus far withstood the end of the MFA quota regime, largely thanks to U.S. safeguards imposed on Chinese goods. Exports during the first half of 2005 are stable, though production is shifting toward higher-value products and natural fiber materials. To counter pressure from China, local producers want preferential access to U.S. markets before safeguards expire in 2008. Without this access, industry leaders expect a sharp decline in Philippine textile exports and employment after safeguards are lifted. Econoffs met with local garments and textile industry stakeholders to discuss recent trends and the changing outlook since the abolition of textile quotas. Responses to reftel requests on employment, production and exports in the textile and garment industry are provided after paragraph ¶10. End Summary.

¶2. Since the signing of the Multi Fiber Agreement in the late 70's, the Philippine garment and textile industry has grown from a cottage industry to a $3 billion sector by 2000, becoming the country's second largest export earner, with seven percent of total export earnings in 2002-03. The quota regime has made RP producers highly dependent upon the U.S. market where 78% of their textile exports went in 2004. The sector employs over 700,000 workers, nearly 25% of industrial employment.

Post-Quota Trends

¶3. Since the end of the quota regime, total garments and textile exports of the RP slowed to 0.1 percent for the first half of 2005 to $1.04 billion. A modest rise in textile exports to non-US trade partners offset a slight decline in exports to the U.S. The Garment and Textile Export Board (GTEB) noted evidence of shifting production towards natural fibers and higher-value products.

¶4. According to GTEB statistics, during January-April 2005, RP exports to the US fell by 6% while garments and textile exports to other markets (except the U.S.) grew by 35% compared to the same period in 2004. Despite the overall decline in exports to the U.S. market, there was a sharp increase in exports of silk and vegetable (S&V) apparel and higher value apparel products. S&V apparel exports rose by 105% and exports of wool apparel products rose by 38%. However both categories are dwarfed by the volume of cotton and man-made fiber products, a category that remains vulnerable to foreign competition. As the total value of exports of S&V products rose 104%, the total volume rose by only 1%, confirming a dramatic shift within this small category toward higher-value products.

Composition of Philippine Apparel Exports to the U.S.
(Value in million US$ for January-April period)

Category	2004	2005	%Change
Wool Products	8.1	11.3	38%
Silk and Vegetable	12.0	24.6	104%
Cotton apparel	434.3	451.5	4%
Man-made Fiber	211.2	174.8	-17%

Consolidation and Decline Probable

¶5. GTEB Executive Director Serafin Juliano told econoff at recent meetings that many Philippine producers were slow to adapt from a rule-based system to a market-based regime. The more successful companies include firms that produce branded products and firms that are able to change production to meet new market conditions. Top apparel

brands that are produced and sourced from the RP include GAP, Old Navy, Ann Taylor, Liz Claiborne, and Polo Ralph Lauren among others. George Siy, President of the Confederation of Garment Exporters of the Philippines (CONGEP), reported that many smaller producers closed down in early 2005 and he predicted further consolidation as buyers turn to larger suppliers with greater capacity. According to Mr. Siy, the top 30 garment manufacturing companies already produce 40% of RP garment exports.

¶6. The GTEB has projected annual growth of 8-10% until 2008 when the outlook becomes bleak. They expect short-term growth to be driven by 25-35% growth in exports to non-US countries with no growth or decline in exports to the US. Mr. Juliano suggested that there could be a 50% decline in RP production of cotton apparel within the first year after safeguards expire since Philippine producers cannot compete with low labor costs in China. This may be compounded if Thai producers enjoy preferential access through a Free Trade Agreement. Philippine producers will continue shifting production towards higher-value products while lobbying for their own preferential access to the US market.

Overcoming Hurdles to Growth

¶7. The experience of CS Garments and Litton Mills shows how two firms adapted to the post-quota environment. While other firms continued to focus on obtaining quotas to the US, CS garments, a t-shirt exporter, turned to the European market. Using its knowledge of the European market together with high quality standards, CS Garments has maintained the profitability of exports of Philippine made shirts every year for the last 15 years. Litton Mills, the biggest among a handful of textile mills here in the Philippines, has also weathered the end of quotas. Litton Mills primarily produces denim fabric for export to the US, Europe, and Japan. According to Litton Mills Business Unit General Manager Johnson Go, only a small share of their export operations have been affected by the quota despite 80% of its customers being US-based. He cited their size and market forecasting abilities as critical factors that have enabled them to prosper after the lifting of quotas.

¶8. In the short term, GTEB believes that Philippine producers will benefit from comparative advantages in skilled labor, product quality standards and reliable production capacity. Philippine producers also maintain relatively strong labor standards compared with regional competitors. GTEB expects an erosion of these advantages as other countries upgrade the training of their workers. Despite the current advantages in more highly skilled labor, the Philippines ranks low in terms of labor productivity especially when compared to China. Philippine garment exporters are also impeded by lack of locally produced raw materials, high power rates and other problems affecting the local investment climate.

Government Initiatives

¶9. GTEB has launched a Philippine Industry Garment Transformation Plan and Assistance Package to help improve industry competitiveness through quality improvement, and technology upgrades aimed at raising productivity. However, CONGEP representatives reported a lukewarm response to this program with only a few large garment firms participating. GTEB also met with garment exporters in August to present its forecast and underscore the need for preferential access to US markets by 2008. In this meeting, GTEB proposed an industry cost-sharing arrangement to hire a US lobbying firm to promote preferential access through an FTA or Qualified Industrial Zones (QIZs) like those established in Jordan.

¶10. Comment: Although Philippine textile and garment exports have withstood the end of the quota regime, Philippine producers remain vulnerable to increased competition after U.S. safeguards on Chinese products expire in 2008. Philippine producers have begun slowly to shift toward high-value and natural fiber products; their main export categories of cotton and man-made fiber products will probably decline sharply after 2008. Given the challenges involved in negotiating a US-RP FTA by 2008, Philippine producers will try to push for QIZs with preferential access to the U.S. market. Textile and garment exporters may help to lobby the GRP for progress in IPR protection and other reform preconditions for bilateral trade negotiations. Even if the Philippines gains preferential access, the garment and textile industries may have a difficult time maintaining their level of textile and garments exports.

¶11. In response to reftel queries, Embassy provides the following information:

-- Total Philippine industrial production was $27.4 billion for 2004 and $7.15 billion for first quarter 2005. (See Table 1 below).

-- Total Philippine textiles and apparel production was $1.22 billion for 2004 and $240 million for first quarter ¶2005.

-- Textiles and apparel's share of Philippine imports was 2.43% in 2004. Textiles and apparel's share of Philippine exports was 5.48% in 2004.

-- Total Philippine manufacturing employment was 3.02 million as of October 2004 and 2.995 million as of January ¶2005. (Refer to table 2 below).

-- Total Philippine textiles employment was 192,000 as of October 2004. Total Philippine apparel employment was 537,000 as of October 2004.

Table 1
National Accounts of the Philippines
At current prices
In Million US Dollars a/

	2004	Qtr 1 2005
Gross Domestic Product	84,567	22,076
Industry Sector	27,439	7,151
Manufacturing	19,897	5,079
Textile Manufactures b/	301	67
Footwear wearing apparel b/	924	174

a/ Original value expressed in pesos, and converted to US$ equivalents using average exchange rate of 56.04 pesos/US$ for 2004 and 55.01 pesos/US$ for first quarter 2005.

b/ Gross value added in manufacturing

Source: Philippine National Statistical Coordination Board

Table 2
Employed Persons by Major Occupation Group and Major and Minor Industry Groups from Primary Occupation
(In thousands)

	As of Oct. 2004	As of Jan. 2005
Philippines	31,741	31,634
Manufacturing	3,020	2,995
Textiles	192	217
Wearing Apparel	537	517

Source: Philippine National Statistics Office

JOHNSON